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IN THE MATTER OF ARIZONA PUBLIC  
SERVICE COMPANY'S REQUEST FOR A  
VARIANCE OF CERTAIN REQUIREMENTS  
OF A.A.C. R14-2-1606

DOCKET NO. E-01345A-01-0822

**NOTICE OF FILING  
REPLACEMENT PAGES TO  
PROPOSED PURCHASE  
POWER AGREEMENT**

Arizona Public Service Company ("APS") hereby submits as Attachment "A" replacement pages to the proposed APS-Pinnacle West Capital Corporation Purchase Power Agreement ("PPA"). The PPA was originally filed on October 18, 2001 in the above-captioned docket.

RESPECTFULLY SUBMITTED this 21st day of November, 2001.

SNELL & WILMER L.L.P.

Thomas L. Mumaw  
Jeffrey B. Guldner

Attorneys for Arizona Public  
Service Company

Snell & Wilmer

LLP  
LAW OFFICES  
One Arizona Center, 400 E. Van Buren  
Phoenix, Arizona 85004-2202  
(602) 382-6000

1 Original and 10 copies of the foregoing  
2 filed this 21st day of November, 2001,  
3 with:

4 Docket Control  
5 Arizona Corporation Commission  
6 1200 West Washington  
7 Phoenix, AZ 85007

8 Copy of the foregoing mailed  
9 this 21st day of November 2001, to:

10 Christopher C. Kempsey, Esq.  
11 Legal Division  
12 Arizona Corporation Commission  
13 1200 West Washington  
14 Phoenix, AZ 85007

15   
16 1100680

# **Attachment A**

**“Dedicated Energy Products”** means Energy and Capacity sold to APS from the Dedicated Units and Dedicated Contracts.

**“Dedicated Units”** means Palo Verde Units 1-3, West Phoenix Units 1-5, Steam Units 4 & 6 and CT1-2, Saguaro Steam Units 1&2 and CTs 1-3, Navajo Units 1-3, Four Corners Units 1-5, Yucca CTs 1-4, Douglas CT, Cholla Units 1-3, Ocotillo Units 1-2 and CT1-2 and Redhawk Units 1-2, from commissioning until such units are retired, as applicable.

**“Dedicated Units Billing Energy”** means the quantity of Energy billed to APS by PWCC each calendar month under Section 3.2 of the Service Schedule. Unless revised as a result of an applicable RTO requirement, Dedicated Units Billing Energy shall equal: (a) the sum of net tie metering for all interconnections between APS’ control area and other control areas as measured through telemetered data and adjusted for end-of-month system revenue metering as agreed between the Parties, plus (b) all net metered generation interconnected with APS’ control area as measured through telemetered data and adjusted for end-of-month system revenue metering as agreed between the Parties, plus (c) losses on third parties’ transmission systems associated with transmission used by APS to serve APS’ Full Load Requirements, less (d) retail and wholesale loads served by other providers or supplied by PWCC to APS under separate contract within APS’ control area, less (e) Supplemental Energy Products, less (f) Replacement Energy Products, less (g) Competitively-Bid Energy Products, less (h) Dedicated Contracts Energy Products, less (i) those resources specifically excluded in the definition of APS’ Full Load Requirements.

**“Dedicated Units Energy Products”** means Energy and Capacity sold the APS from the Dedicated Units.

**“Defaulting Party”** means a Party who itself or through its Credit Support Provider is subject to an Event of Default.

**“Delivery Point”** means a location or locations, as agreed-upon from time to time, at which PWCC’s resources used to provide Energy Products to APS interconnect with: (a) APS’ transmission or distribution system; (b) the system of a future RTO in which APS’ retail load is located; or (c) points of interconnection between such systems and adjoining systems.

**“Demand”** means the rate at which Energy is delivered.

**“Direct Actual Damages”** means the damages calculated under Section 7.2.

**“Early Termination Date”** means a date on which the Agreement is terminated that is earlier than the date specified in Section 11.2 of the Agreement.

**“Energy”** means three-phase, sixty-hertz electric energy delivered at the nominal voltage of the Delivery Point expressed in megawatt hours (MWh) or kilowatt hours (kWh).

**“Energy Products”** means Energy and Capacity.

- a Base Fuel Charge ("BFC") for fuel and related costs associated with the Dedicated Units Energy Products, as set forth in Attachment 2 to this Service Schedule;
- a Fuel and Purchased Power Adjustment ("FPPA") for variable costs, as set forth in Attachment 2 to this Service Schedule; and
- transmission, losses, and Ancillary Services costs to the Delivery Points as a pass-through charge to APS.

The Fuel and Purchased Power Adjustment can be positive or negative.

3.2.2 Pricing of Dedicated Units Energy Products.

- 3.2.2.1 Based on Section 3.2.1 above and Attachment 1 to this Service Schedule, the initial Facilities Charges for Dedicated Units Energy Products in the Pinnacle West Energy Contract shall be:

Facilities Charge		(excludes Palo Verde)
<u>Year</u>	<u>(\$000/Month)</u>	
2002	\$ 31,230	
2003	\$ 63,600	
2004	\$ 67,120	

- 3.2.2.2 For Contract Years following 2004, the Facilities Charge in the Pinnacle West Energy Contract shall be calculated as provided in Attachment 1 to this Service Schedule.
- 3.2.2.3 The Base Fuel Charge in the Pinnacle West Energy Contract shall be \$0.0210 per kWh for 2002 and \$0.0174 per kWh for 2003 and thereafter for the remaining term of this Agreement, as provided in Attachment 2 to this Service Schedule.
- 3.2.2.4 Beginning March 1, 2003, a Fuel and Purchased Power Adjustment to the Base Fuel Charge will be applied each month to the billing for Dedicated Units Energy Products. The Fuel and Purchased Power Adjustment in the Pinnacle West Energy Contract shall be calculated annually prior to March of each calendar year as provided in Attachment 2 to this Service Schedule.
- 3.2.2.5 For billing purposes, the Base Fuel Charge and the Fuel and Purchased Power Adjustment shall be applied to the Dedicated Units Billing Energy.

### 3.2.3 Minimum Availability of Dedicated Units.

3.2.3.1 Capacity. At a minimum, PWCC shall make Capacity from the Dedicated Units available as follows: (a) for 2002, prior to the transfer of Palo Verde Nuclear Generating Station Assets, the lesser of 3440 MW at system peak or actual load at system peak; and (b) for 2003 and later, after the transfer of Palo Verde Nuclear Generating Station Assets, the lesser of 4720 MW at system peak or actual load at system peak, subject to adjustment as Dedicated Units are retired.

3.2.3.2 Energy. At a minimum, PWCC shall have available Energy from the Dedicated Units in the amount of: (a) for 2002, prior to the transfer of Palo Verde Nuclear Generating Station Assets, 15,370 GWh annually; and (b) for 2003 and later, after the transfer of Palo Verde Nuclear Generating Station Assets, 21,090 GWh annually, subject to adjustment as Dedicated Units are retired.

3.2.4 Dedicated Contracts Energy Products. Dedicated Contracts Energy Products shall be priced at the actual cost incurred by PWCC under the provisions of those contracts, including transmission, losses, and Ancillary Services to the Delivery Point. In the event of a default on a Dedicated Contract, PWCC shall obtain Replacement Energy Products pursuant to Section 3.4 of this Service Schedule.

3.3 Supplemental Energy Products. If APS' Full Load Requirements exceeds the Energy Products provided under Sections 3.1 and 3.2, or if there are insufficient qualified bidders to supply the required level of Competitively-Bid Energy Products under Section 3.1 of this Service Schedule, then PWCC shall use commercially-reasonable efforts to obtain the additional energy requirements in the market. APS shall be responsible for any and all costs and expenses incurred in the acquisition of any Supplemental Energy Requirements supplied including PWCC's administrative expenses incurred for procurement.

3.4 Replacement Energy Products. In the event of non-performance by parties that are under contractual commitments, PWCC shall use commercially-reasonable efforts to obtain Replacement Energy Products for the benefit of APS. PWCC shall also obtain Replacement Energy Products when requested under Section 8.1(B) of the Agreement. APS shall be responsible for any and all costs incurred for the acquisition of Replacement Energy Products including PWCC's administrative expenses incurred for procurement. In consultation with APS, PWCC shall pursue all commercially legal remedies for defaults under contracts entered into to

Calculation of the Facilities Charge in the Pinnacle West Energy Contract

**1. Facilities Charge (FC).**

The FC for 2002-04 as specified in Section 3.2.2.1 of the Service Schedule was derived using the method below. Effective January 1, 2005 and every three years thereafter the FC shall include the reasonable costs of owning and operating the Dedicated Units as recalculated below:

$$\text{FC \$ / Month} = \frac{[(\text{ROR} \%) \times (\text{Net Dedicated Units Assets \$})] + (\text{Dedicated Units Operating Annual Expenses \$}) - \text{Annual Ancillary Service Revenues}^1]}{12 \text{ Months}}$$

Where:

Rate of Return (ROR) is 9.38% which is the cost of capital assuming a 50/50 debt-equity capital structure, at a 7.5% cost of debt and a 11.25% return on equity.

Net Dedicated Units Assets<sup>2</sup> = Original Plant-in-Service Cost<sup>3</sup> - Accumulated Depreciation - Accumulated Deferred Income Taxes  
+ Material & Supplies + Prepayments + Working Cash + Miscellaneous Deferred Credits

Dedicated Units Operating Expenses<sup>4</sup> = Operation & Maintenance Expenses<sup>5</sup> + Administrative & General Expenses  
+ Depreciation & Amortization Expenses<sup>6</sup> + Ad Valorem Taxes<sup>7</sup>  
+ Income Tax Expense<sup>8</sup> + Other Taxes or Assessments<sup>9</sup>

<sup>1</sup> Includes revenues paid to PWCC by APS for ancillary services pursuant to the terms of a separate contract.

<sup>2</sup> Projected three year average of year end balances. Each component shall be defined pursuant to the FERC system of accounts or if no applicable FERC system of accounts exists, then on General Accepted Accounting Principles (GAAP). All A&G related expenses, not directly charged, shall be allocated on wages and salaries for the Dedicated Units as a percent of total Pinnacle West Energy wages and salaries.

<sup>3</sup> Original Plant-in-Service Costs will include all capitalized costs of the Dedicated Units plus improvements including common and intangible.

<sup>4</sup> Projected three year average. Each component shall be defined pursuant to the FERC system of accounts or if no applicable FERC system of accounts exists, then on General Accepted Accounting Principles (GAAP). All A&G related expenses, not directly charged, shall be allocated on wages and salaries for the Dedicated Units as a percent of total Pinnacle West Energy wages and salaries.

<sup>5</sup> Costs and expenses associated with the Dedicated Units excluding fuel and purchased power.

<sup>6</sup> Costs and expenses associated with the Dedicated Units, including related common facilities.

<sup>7</sup> Costs and expenses associated with the Dedicated Units, including related common facilities.

<sup>8</sup> Based on the statutory tax rate, both state and federal, for PWEC on stand alone basis.

<sup>9</sup> Taxes and assessments based on generation or gross revenue.

Calculation of the BFC and FPPA in the Pinnacle West Energy Contract

**1. Base Fuel Charge (BFC).**

The BFC shall be set at \$0.021/kWh for the calendar year 2002, and at \$0.0174 /kWh effective January 1, 2003 for the remainder of the Agreement, and is the Projected Average Fuel Costs associated with the Dedicated Units (AFCDU) for 2002-2004.

Where:

$$\text{AFCDU } \$/\text{kWh} = (\text{Total fuels cost of Dedicated Units}^1 \$) / (\text{Total generation of the Dedicated Units MWh})$$

**2. Fuel & Purchased Power Adjustment (FPPA).**

Beginning March 1, 2003 a FPPA to the BFC will be applicable each month to the billing for Dedicated Units Energy Products. The FPPA shall be calculated annually prior to March of each calendar year as follows:

$$\text{FPPA } \$/\text{kWh} = [(\text{Projected AFCDU}^2\text{-BFC}) \$/\text{kWh}] + [((\text{Actual AFCDU}^3\text{-Projected AFCDU}^4 \$/\text{kWh}) \times \text{Actual kWh}) - \text{Off-System Sales Margin } \$] \text{ Projected kWh}$$

Where:

“Actual kWh” is the actual Dedicated Units Energy Products purchased by APS on a kWh basis for the prior contract year.

“Projected kWh” is the kWh projected by APS pursuant to Section 2 of this Service Schedule, less the Energy Products acquired under Section 3.1, Section 3.2.4, Section 3.3, and Section 3.4 of this Service Schedule, for the period March 1 of the current Contract Year through the last day of February of the next Contract Year.

$$\text{Off-System Sales Margin}^5 = [(\text{Off-System MWh } X \text{ (Price}^6 \$/\text{MWh} - \text{AFCDU}^7 \$/\text{MWh)}) - \text{Other Costs}^8] \times .25$$

<sup>1</sup> Total fuels costs of Dedicated Units shall include all coal, gas including transportation, oil, nuclear fuel expenses, costs and benefits of fuel-related financial instruments, nuclear spent fuel costs, any applicable surcharges, purchased power costs associated with economic dispatch of the Dedicated Units, nuclear decommissioning expense to the extent it is not recovered from the System Benefits charge authorized by the Arizona Corporation Commission, and any other fuel related expenses, including but not limited to costs associated with emissions allowances.

<sup>2</sup> For current Contract Year.

<sup>3</sup> For prior Contract Year.

<sup>4</sup> For prior Contract Year.

<sup>5</sup> For prior Contract Year for Energy Products delivered and sold into the wholesale market for third-party purchases.

<sup>6</sup> The Price will be based upon the Dow Jones Palo Verde Daily On and Off-Peak Index as applicable to the specific sales. In the event this index ceases to exist or a more representative index is developed for Arizona or the southwest portion of the U.S.A. then the index will be replaced.

<sup>7</sup> For prior Contract Year.

<sup>8</sup> Includes transmission costs and losses, and Ancillary Services, if applicable, and other out-of-pocket costs associated with the sales.